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USSR

CIA/OER/S-06650-74

4 December 1974

MEMORANDUM FOR: Mr. David Pritchett
Office of National Security
Department of the Treasury

SUBJECT : Soviet-Occidental Fertilizer Pact

Attached is the information you requested on the pending Soviet-Occidental exchange of fertilizer materials. When detached from this memorandum it may be regarded as unclassified. If you have further questions please call me on extension 351-6716.

STATINTL

[redacted]
Resources Branch
USSR/Eastern Europe Division
Office of Economic Research

Attachment:
as stated

Distribution: (S-6650)
Orig. & 1 - Addressee
1 - D/OER
1 - St/P/C
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1 - I/AM [redacted]
2 - U/RE

STATINTL

CER/U/RE/[redacted]:dec/6716 (3 Dec 74)

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EXCAT = 2

Soviet-Occidental 20-Year Fertilizer Pact

In June 1974 Occidental Petroleum Corporation signed contracts with the USSR involving a 20-year fertilizer exchange and providing for Occidental design and construction of fertilizer handling and storage facilities at Odessa and Ventspils. The fertilizer exchange, scheduled to start in 1978, calls for Occidental to provide the USSR with one million metric tons of concentrated phosphoric acid (superphosphoric acid) annually in return for the following annual volume of Soviet materials (metric tons):

Ammonia	--	1.5 million
Urea fertilizer	--	1.5 million
Potash	--	1 million

Occidental will receive an additional 1.5 million tons per year of Soviet ammonia for an unspecified period beginning in 1978 or 1979. Soviet earnings from the additional ammonia sales to Occidental are to go to repay credits totaling $360 million granted by the US Export-Import Bank and by private US banks to finance the port facilities deal with Occidental plus Soviet purchase of four ammonia plants from another US firm.

The 20 year fertilizer exchange, if fully implemented, will be worth about $20 billion at current prices, with the annual value of trade each way estimated at about $500

million. The ultimate value of the exchange, however, will be determined by prices that are adjusted periodically to reflect world prices. According to Occidental's Chairman, his firm's profits will come from markups on the phosphoric acid plus a guaranteed income of 2.5% from sales of ammonia and 3% from sales of urea fertilizer. Such information has not been disclosed for potash.

At least part of the Soviet fertilizer materials obtained by Occidental reportedly will be sold in the US. Ammonia, a major input in production of nitrogen fertilizers, is currently in tight supply in the US. By 1978, when Occidental is to begin receiving substantial quantities of Soviet ammonia, the US will have additional sources of supply. Part of the ammonia from plants now under construction in Canada and in the Caribbean is to be marketed in the US. Some additional domestic production capacity will also be available.

About 70% of the net US supply of potash fertilizers is imported, mainly from Canada. The USSR, the world's largest producer of potash and second only to Canada as an exporter of this commodity, currently ships more than three-fifths of its export volume to Eastern Europe. Belgium and Japan were the major Western recipients of Soviet potash in 1973. Both the USSR and Canada have huge deposits of potash

and can be expected to expand exports over the next several years.

A major Soviet incentive for the fertilizer exchange is the shortage of phosphate fertilizers in the USSR. The phosphoric acid obtained from Occidental probably will be used chiefly to produced phosphate and multinutrient fertilizers. These are badly needed because more than half of the arable land in the USSR is deficient in phosphorus. Apart from their effect in increasing crop yields, phosphate fertilizers improve grain quality and hasten the ripening of wheat. The latter effect is important as many Soviet grain areas have a short growing season and are vulnerable to early frosts and adverse harvesting weather.